

CITY OF TROY, ALABAMA
FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

CITY OF TROY, ALABAMA

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of the City Council
City of Troy, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Troy, Alabama, as of and for the years ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Troy, Alabama management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Troy, Alabama, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2005, on our consideration of the City of Troy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

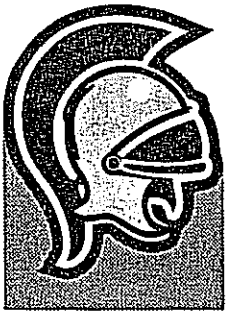
The management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 42, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Troy, Alabama, basic financial statements. The additional schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the City of Troy, Alabama. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects, in relation to the basic financial statements taken as a whole.



March 28, 2005

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The City of TROY

P.O. Box 549
301 Railroad Avenue
Troy, Alabama 36081

Management's Discussion and Analysis

As management of the City of Troy, Alabama, we offer readers of the City of Troy's financial statements this narrative overview and analysis of the financial activities of the City of Troy for the fiscal year ended September 30, 2004. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

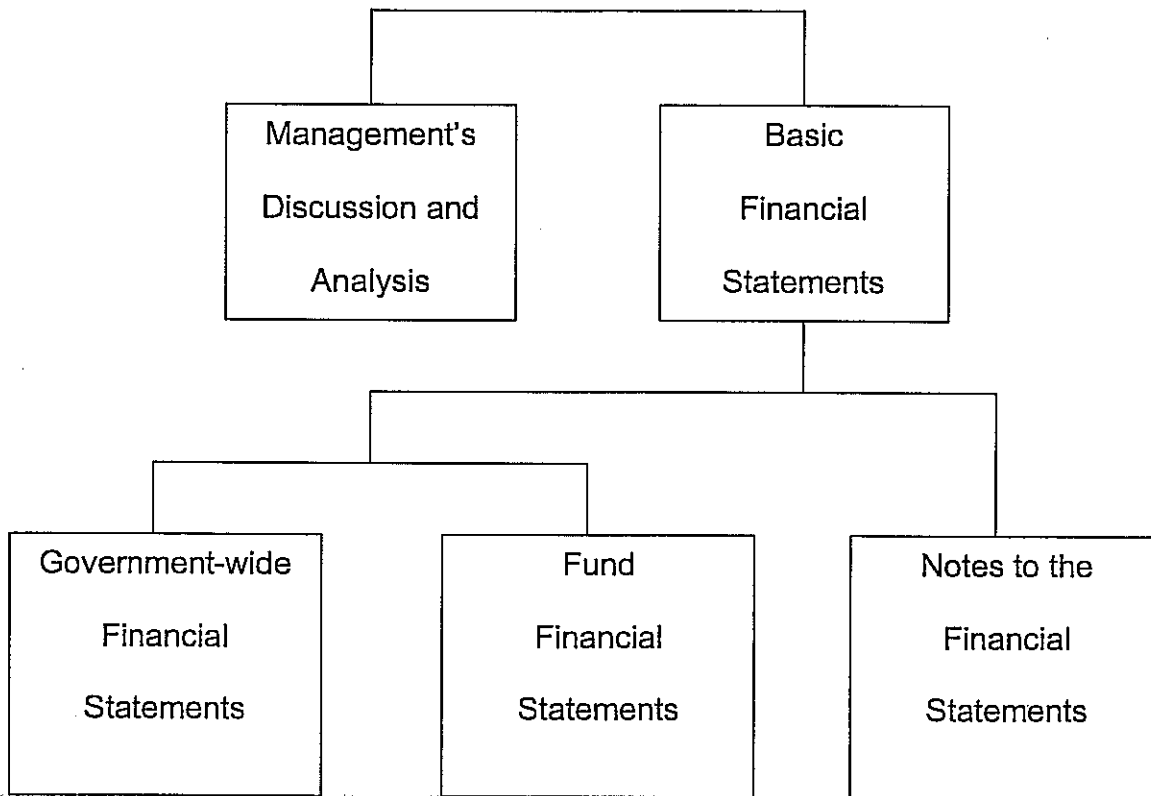
- The assets of the City of Troy exceeded its liabilities at the close of the fiscal year by \$45,137,722 (*net assets*).
- Net Assets restricted for future growth of \$15,209,641 are investments in government backed securities in a nonexpendable trust account established by City Ordinance No. 123 and Alabama Act 96-459, that was funded from the net proceeds of the sale of the hospital in 1996. The City can only spend ninety percent of the earnings. Ten percent of the earnings are retained in the trust. The nonexpendable trust can only be spent by a two-thirds (2/3) vote by the residents of the City of Troy.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$(369,299), or 2 percent of total General Fund expenditures for the fiscal year.
- The City of Troy's governmental activities indebtedness decreased by \$2,346,733 during the current fiscal year. The key factor in this decrease was payment of a General obligation not with the issuance of the 2003 General Obligation warrants. The City of Troy's business-type activities indebtedness decreased by \$503,814. The key factor in this decrease was annual principal payments on Revenue Bonds.
- The City of Troy maintained its AAA bond rating for the 16th consecutive year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Troy's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Troy.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (Exhibits 3 through 9) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's budget and grant related "Single Audit" reports.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes, sales and use taxes, and transfers from business-type activities finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water, sewer and electric services offered by the City of Troy.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Exhibits 3 through 9) provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Troy, like all other governmental entities in Alabama, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of City of Troy can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Troy adopts an annual budget for its General Fund, as required by the General Statutes. The budget incorporates input from the citizens of the City, the management of the City, and the decisions of the Council about which services to provide and how to pay for them. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the

budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Council; 2) the final budget as amended by the Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – City of Troy has one kind of proprietary fund, an Enterprise Fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. City of Troy uses an enterprise fund to account for its water, sewer and electric operations. This fund is the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

The government-wide financial statements for the fiscal year ended September 30, 2003 are the beginning of a new era in financial reporting for the City of Troy, and many other units of government across the United States. Prior to this year, the City of Troy maintained their governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the City of Troy. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting model are mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the City of Troy's financial reports as well as those of many other units of government. While the City of Troy was required to implement these changes for the fiscal year ended September 30, 2003, other units were required to implement Statement 34 in 2002, and any remaining governments will be implementing in 2004.

Because of the new reporting model, comparative data for all facets of this report are not available. When comparative numbers are accessible, they have been included, such as with net assets. Future years' reports will have more comparative data that will allow more opportunities for comparative analysis.

The City of Troy's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 20,407,593	\$ 25,267,785	\$ 14,934,214	\$ 15,218,378	\$ 35,341,807	\$ 40,486,163
Capital assets	22,659,691	19,790,089	23,155,978	23,273,856	45,815,669	43,063,945
Total Assets	\$ 43,067,284	\$ 45,057,874	\$ 38,090,192	\$ 38,492,234	\$ 81,157,476	\$ 83,550,108
Long-term liabilities outstanding	\$ 13,777,796	\$ 13,544,023	\$ 17,119,720	\$ 17,495,365	\$ 30,897,516	\$ 31,039,388
Other liabilities	1,929,501	3,974,479	3,192,737	3,006,871	5,122,238	6,981,350
Total Liabilities	\$ 15,707,297	\$ 17,518,502	\$ 20,312,457	\$ 20,502,236	\$ 36,019,754	\$ 38,020,738
Invested in capital assets, net of related debt	\$ 8,787,377	\$ 3,571,042	\$ 5,191,181	\$ 4,805,245	\$ 13,978,558	\$ 8,376,287
Restricted	18,893,820	22,536,072	7,628,201	8,168,790	26,522,021	30,704,862
Unrestricted	(321,210)	1,432,258	4,958,353	5,015,963	4,637,143	6,448,221
Total Net Assets	\$ 27,359,987	\$ 27,539,372	\$ 17,777,735	\$ 17,989,998	\$ 45,137,722	\$ 45,529,370

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Troy exceeded its liabilities at the close of the fiscal year by \$45,137,722. The City's net assets decreased by \$391,648 for the fiscal year ended September 30, 2004. However, the largest portion (52.01%) reflects the City's current and future investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The City of Troy uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Troy's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Troy's net assets represents resources that are subject to external restrictions on how they may be used.

Several particular aspects of the City's financial operations positively influenced the total unrestricted governmental net assets:

- Licenses and Permit Fees increased by 6% due to economic growth in the City.
- Taxes increased by \$341,922 due to a continued increase in economic growth.
- Continued low cost of debt due to the City's high bond rating.

City of Troy's Changes in Net Assets Figure 3

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues:						
Charges for services	\$ 1,363,111	\$ 1,800,085	\$ 10,444,827	\$ 10,912,492	\$ 11,807,938	\$ 12,712,577
Operating grants and contributions	272,384	297,385	-	-	272,384	297,385
Capital grants and contributions	1,248,422	1,975,273	-	1,251,000	1,248,422	3,226,273
General Revenues:						
Property taxes	687,825	746,567	-	-	687,825	746,567
Other taxes	5,476,938	4,955,478	-	-	5,476,938	4,955,478
Investment earnings	694,034	776,384	258,900	222,652	952,934	999,036
Other	1,314,407	1,106,096	-	-	1,314,407	1,106,096
Total Revenues	11,057,121	11,657,268	10,703,727	12,386,144	21,760,848	24,043,412
Expenses:						
General government	3,953,035	3,519,852	-	-	3,953,035	3,519,852
Public safety	4,209,417	3,875,587	-	-	4,209,417	3,875,587
Streets, airport and public works	2,589,549	2,357,838	-	-	2,589,549	2,357,838
Health, welfare and recycling	605,490	593,763	-	-	605,490	593,763
Culture and recreation	1,954,295	1,602,409	-	-	1,954,295	1,602,409
Education	-	30,100	-	-	-	30,100
Senior center	201,238	169,261	-	-	201,238	169,261
Special projects	472,266	474,912	-	-	472,266	474,912
Interest on long-term debt	687,049	375,242	-	-	687,049	375,242
Water, sewer and electric	-	-	7,480,157	6,862,578	7,480,157	6,862,578
Total Expenses	14,672,339	12,998,964	7,480,157	6,862,578	22,152,496	19,861,542
Increase in Net Assets Before Transfers	(3,615,218)	(1,341,696)	3,223,570	5,523,566	(391,648)	4,181,870
Transfers	3,435,833	4,112,538	(3,435,833)	(4,112,537)	-	1
Increase in Net Assets	(179,385)	2,770,842	(212,263)	1,411,029	(391,648)	4,181,871
Net Assets, October 1	27,539,372	24,768,530	17,989,998	16,578,969	45,529,370	41,347,499
Net Assets, September 30	\$ 27,359,987	\$ 27,539,372	\$ 17,777,735	\$ 17,989,998	\$ 45,137,722	\$ 45,529,370

Governmental activities. Governmental activities decreased the City's net assets by \$179,385. Key elements of this decrease are as follows:

- Grant revenues for airport improvements and economic development were down from the previous year of \$700,000.
- Tax revenues remained steady.
- Overall expenditures were up due to increases in payroll, gasoline prices and expenditures related to clean-up after Hurricane Ivan.

Business-type activities: Business-type activities decreased the City of Troy's net assets by \$212,263. Key elements of this decrease are as follows:

- There was an increase in power costs of \$1.3 million dollars. The contract is up for renegotiations in fiscal year 2005.
- Overall expenditures were up due to increases in payroll, gasoline prices and expenditures related to clean-up after Hurricane Ivan.
- Expenses were offset by reduced transfers to the General Government and an upswing in overall revenues generated by the water, sewer and electric departments.

Financial Analysis of the City's Funds

As noted earlier, the City of Troy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Troy's governmental funds is to provide information on near-term inflows, outflows and balances of usable resources. Such information is useful in assessing the City of Troy's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City of Troy. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$(369,299), while total fund balance reached \$3,314,880. Unreserved fund balance represents 2 percent of total General Fund expenditures, while total fund balance represents 20 percent of that same amount. \$3,684,179 is reserved for capital projects. The Fund Balance decreased by \$5 million due to debt service payments of approximately \$2 million and capital outlays of approximately \$3 million. Total fund balance is made up of \$3.6 million dollars in bond proceeds that are obligated to complete construction on a Recreation facility to serve the citizens and approximately \$15.2 million in a restricted trust account.

General Fund Budgetary Highlights: The City of Troy does not amend the budget during the year. All expenditures/revenues outside the budget are approved by the Council on an individual basis.

- The City had a favorable variance of \$1,979,588 in total revenue budgeted. \$1,520,806 in operating and capital grants were received, but they were not budgeted for because their approval was not known at the time the budget was prepared. The remainder of the favorable variance of \$458,782 is due to conservative estimating of revenues.
- Expenses were within tolerable variances established by the council and were mainly due to increases in gasoline prices (Highways and Streets) and insurance rates (General Government).
- Restructured debt resulted in an unfavorable variance of \$2,096,291 in debt service costs.
- Capital outlay variances of \$2,672,171 were offset by grant revenues and issuance of bonds to offset the expenditure.
- Hurricane Ivan resulted in unbudgeted expenses of approximately \$300,000 that effected all departments.

Proprietary Funds. The City of Troy's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$4,958,353.

Capital Asset and Debt Administration

Capital assets. The City of Troy's investment in capital assets for its governmental and business-type activities as of September 30, 2004, totals \$45,815,669 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, electric, water, and sewer distribution systems, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Recreational facility progress of \$1,143,156.
- Street Improvements of \$2,119,481.
- Water, Sewer, Electric improvements of \$2,074,108.

City of Troy's Capital Assets (net of accumulated depreciation)

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 2,416,571	\$ 2,458,783	\$ 104,434	\$ 104,434	\$ 2,521,005	\$ 2,563,217
Autos and trucks	1,066,312	1,042,832	432,374	272,234	1,498,686	1,315,066
Furniture and fixtures	37,761	42,544	87,382	76,414	125,143	118,958
Buildings and improvements	12,585,422	12,565,428	1,916,231	2,095,867	14,501,653	14,661,295
Equipment	778,872	649,201	92,220	123,838	871,092	773,039
Books	550,904	545,002	-	-	550,904	545,002
Street improvements	4,080,693	2,486,299	-	-	4,080,693	2,486,299
Infrastructure	-	-	18,976,328	17,863,629	18,976,328	17,863,629
Construction in progress	1,143,156	-	1,547,009	2,737,440	2,690,165	2,737,440
Total	\$ 22,659,691	\$ 19,790,089	\$ 23,155,978	\$ 23,273,856	\$ 45,815,669	\$ 43,063,945

Additional information on the City's capital assets can be found in Note 3 of the basic financial statements.

Long-term Debt. As of September 30, 2004, the City of Troy had total bonded debt outstanding of \$32,655,000. Of this, \$12,700,000 is debt backed by the full faith and credit of the City and \$1,400,000 is backed by the school system. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

- The City of Troy issued \$7,885,000 in bonds for business-type activities, all of which were used to refinance existing bonds at a lower rate.

City of Troy's Outstanding Debt General Obligation and Revenue Bonds

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 14,100,000	\$ 14,560,000	\$ -	\$ -	\$ 14,100,000	\$ 14,560,000
General obligation notes	232,523	2,189,616	-	-	232,523	2,189,616
Capital leases	-	-	33,558	56,804	33,558	56,804
Revenue bonds	-	-	18,555,000	19,020,000	\$ 18,555,000	\$ 19,020,000
Total	\$ 14,332,523	\$ 16,749,616	\$ 18,588,558	\$ 19,076,804	\$ 32,921,081	\$ 35,826,420

As mentioned in the financial highlights section of this document, the City of Troy maintained for the 16th consecutive year, its AAA bond rating from Moody's Investor Service and AAA rating from Standard and Poor's Corporation. This bond rating is an indication of the sound financial condition of City of Troy. The City of Troy is one of the few cities in the state that maintains the highest financial rating from both major rating agencies. This achievement is a primary factor in keeping interest costs low on the City's outstanding debt.

Alabama general statutes limit the amount of general obligation debt that a unit of government can issue to 20 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City of Troy is \$21,400,000.

Additional information regarding the City of Troy's long-term debt can be found in note 5 of the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the City:

- The City entered into an agreement with the newly formed Pike County Economic Development Corporation and is the primary contributor to said corporation. The City of Troy is the county seat for Pike County. Any new jobs created in the county draw employees from the City of Troy. In 2004, the Pike County Economic Development Corporation assisted in recruiting/expanding the following new industries and related new jobs within Pike County:

<u>Company</u>	<u>Estimated New Jobs</u>
• Wal-Mart Distribution Center	700
• KW Plastics paint can manufacturer	100
• Sikorsky expansion (Helicopter refurbishing)	40
• Lockheed Martin expansion (Missile manufacturer)	100
• CNC-Enterprises (Metal fabricator for Hyundai)	45

- Recruited and secured a Lowes
- In addition, Troy University moved from Division 1AA to Division 1A in all athletic activities which adds to the number of students that attend the University. Also, 15 new retail outlets, from restaurants to hotels, have opened during 2004 in the City of Troy.

Budget Highlights for the Fiscal Year Ending September 30, 2005

Governmental Activities: Property taxes (benefiting from the economic growth) and revenues from permits and fees are expected to lead the increase in budgeted revenue. The City will use these increases in revenues to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to stay the same. Increases in employee compensation, including funding compensation and benefits adjustments, are offset by decreases in other expenditures.

Business – type Activities: Water, electric, and sewer rates are established by ordinance and are not expected to increase. Any increases in operating expenses are offset by an energy cost adjustment passed on to the consumer.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the City Clerk/Treasurer, City of Troy, Post Office Box 549, Troy, Alabama 36081.

BASIC FINANCIAL STATEMENTS

CITY OF TROY, ALABAMA

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 4,501,906	\$ 2,710,293	\$ 7,212,199
Receivables:			
Taxes	465,985	-	465,985
Utility bills	-	3,126,633	3,126,633
Grants	-	-	-
Inventory	-	632,459	632,459
Restricted assets - cash, receivables and investments	15,209,641	8,045,760	23,255,401
Fixed assets (net of accumulated depreciation)	22,659,691	23,155,978	45,815,669
Unamortized bond issuance cost	230,061	419,069	649,130
Total Assets	\$ 43,067,284	\$ 38,090,192	\$ 81,157,476
Liabilities			
Accounts payable	\$ 582,879	\$ 1,175,165	\$ 1,758,044
Payroll taxes and group insurance	206,495	15,022	221,517
Accrued salaries	296,549	145,737	442,286
Accrued interest payable	100,780	274,647	375,427
Alabama utilities tax payable	-	49,922	49,922
Bonds, notes and capital leases due within one year (net)	711,151	1,102,219	1,813,370
Accrued compensated absences	616,633	257,142	873,775
Customer deposits	31,647	430,025	461,672
Bonds, notes and capital leases due in more than one year (net)	13,161,163	16,862,578	30,023,741
Total Liabilities	\$ 15,707,297	\$ 20,312,457	\$ 36,019,754
Net Assets			
Invested in capital assets, net of related debt	\$ 8,787,377	\$ 5,191,181	\$ 13,978,558
Restricted for:			
Capital projects	3,684,179	5,815,363	9,499,542
Debt service	-	1,812,838	1,812,838
Future growth	15,209,641	-	15,209,641
Unrestricted net assets	(321,210)	4,958,353	4,637,143
Total Net Assets	\$ 27,359,987	\$ 17,777,735	\$ 45,137,722

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

CITY OF TROY, ALABAMA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2004

Functions/Programs	Program Revenues			Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Primary Government	
					Governmental Activities	Business-Type Activities
Primary Government:						
Government Activities:						
General government	\$ 3,953,035	\$ 529,508	\$ 196,698	\$ 176,200	\$ (3,050,629)	\$ (3,050,629)
Public safety	4,209,417		75,686		(4,133,731)	(4,133,731)
Streets, airport and public works	2,589,549	588,332		1,014,612	(986,605)	(986,605)
Health, welfare and recycling	605,490				(605,490)	(605,490)
Culture and recreation	1,954,295	245,271		1,000	(1,708,024)	(1,708,024)
Education	-				-	-
Senior center	201,238			56,610	(144,628)	(144,628)
Special projects	472,266				(472,266)	(472,266)
Interest on long-term debt	687,049				(687,049)	(687,049)
Total Governmental Activities	14,672,339	1,363,111	272,384	1,248,422	(11,788,422)	(11,788,422)
Business-type Activities:						
Water, sewer and electric	7,480,157	10,444,827	-	-	-	2,964,670
Total Business-type Activities	7,480,157	10,444,827	-	-	-	2,964,670
Total Primary Government	\$ 22,152,496	\$ 11,807,938	\$ 272,384	\$ 1,248,422	\$ (11,788,422)	\$ (8,823,752)
General revenues:						
Property taxes					687,825	687,825
General sales and use tax					4,447,586	4,447,586
Beer, tobacco and lodging tax					656,612	656,612
State gasoline taxes					372,740	372,740
Investment earnings					694,034	952,934
Special item - gain (loss) on sale of fixed assets					(8,683)	(8,683)
Other revenues					1,323,090	1,323,090
Total General Revenues					8,173,204	8,432,104
Transfers					3,435,833	(3,435,833)
Change in Net Assets					(179,385)	(212,263)
Net Assets - Beginning of Year					27,539,372	17,989,998
Net Assets - End of Year					\$ 27,359,987	\$ 17,777,735
						\$ 45,137,722

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

CITY OF TROY, ALABAMA

FUND BALANCE SHEETS

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2004

	2004			
	General Fund	Permanent Fund	Other Governmental Funds	Total
Assets				
Cash	\$ 3,972,243	\$ 959,999	\$ 529,663	\$ 5,461,905
Property and other taxes receivable	452,307		13,678	465,985
Interest receivable	-	12,988	-	12,988
Investments (at cost)	-	14,236,654	-	14,236,654
Total Assets	\$ 4,424,550	\$ 15,209,641	\$ 543,341	\$ 20,177,532
Liabilities				
Accounts payable	\$ 574,979	\$ -	\$ 7,900	\$ 582,879
Payroll taxes and group insurance	206,495	-	-	206,495
Deposits payable	31,647	-	-	31,647
Accrued salaries	296,549	-	-	296,549
Total Liabilities	1,109,670	-	7,900	1,117,570
Fund Balances				
Reserved for:				
Capital projects from bond proceeds	3,684,179	-	-	3,684,179
Future growth	-	15,209,641	-	15,209,641
Special revenue fund - library	-	-	20,838	20,838
Unreserved, reported in:				
General fund	(369,299)	-	-	(369,299)
Special revenue fund	-	-	514,603	514,603
Total Fund Balances	3,314,880	15,209,641	535,441	19,059,962
Total Liabilities and Fund Balances	\$ 4,424,550	\$ 15,209,641	\$ 543,341	\$ 20,177,532

CITY OF TROY, ALABAMA**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEETS TO THE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004**

Total Fund Balances - Governmental Fund Types: \$ 19,059,962

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 22,659,691

Deferred Costs on the issuance of debt are not financial resources and, therefore, are not reported in the funds. 230,060

Long-term liabilities, including accrued absences and bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. (14,589,726)

Net Assets of Government Activities \$ 27,359,987

CITY OF TROY, ALABAMA
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	2004			
	General	Permanent	Other	
	Fund	Fund	Governmental	Total
	Funds			
Revenues:				
Taxes	\$ 5,994,388	\$ -	\$ 170,375	\$ 6,164,763
Charges for services	588,332	-	245,271	833,603
Licenses and permits	529,508	-	-	529,508
Fines and costs	249,071	-	-	249,071
Investment income	-	688,299	5,735	694,034
Capital and operating grants	1,520,806	-	-	1,520,806
Other revenues	1,123,483	-	-	1,123,483
Total Revenues	10,005,588	688,299	421,381	11,115,268
Expenditures:				
Special projects	472,266	-	-	472,266
Culture and recreation	228,257	-	1,418,231	1,646,488
Education	-	-	-	-
General government	3,499,560	-	-	3,499,560
Public safety	4,060,651	-	-	4,060,651
Streets, airport and public works	1,853,083	-	-	1,853,083
Health, welfare and recycling	479,304	-	-	479,304
Debt service	3,171,291	-	-	3,171,291
Senior center	201,238	-	-	201,238
Capital outlay	3,022,171	-	1,622,869	4,645,040
Total Expenditures	16,987,821	-	3,041,100	20,028,921
Excess of Revenues Over (Under) Expenditures	(6,982,233)	688,299	(2,619,719)	(8,913,653)
Other Financing Sources (Uses):				
Proceeds from debt	164,000	-	-	164,000
Payment of issue cost and discount on bonds	-	-	-	-
Payment to bond escrow	-	-	-	-
Operating transfers in	4,038,274	-	2,524,991	6,563,265
Operating transfers out	(2,524,991)	(602,441)	-	(3,127,432)
Total Other Financing Sources (Uses)	1,677,283	(602,441)	2,524,991	3,599,833
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(5,304,950)	85,858	(94,728)	(5,313,820)
Fund Balance - Beginning of Year	8,619,830	15,123,783	630,169	24,373,782
Fund Balance - End of Year	\$ 3,314,880	\$ 15,209,641	\$ 535,441	\$ 19,059,962

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

CITY OF TROY, ALABAMA**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2004**

Net Changes in Fund Balances - Total Governmental Funds	\$	(5,313,820)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		2,927,748
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In the Statement of Activities, only the gain on the sale of the fixed assets is reported while in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the fixed assets sold.		(58,147)
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The change accrued compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount the accrual increased for the current period.		(55,408)
--	--	----------

The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		2,320,242
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Change in Net Assets of Governmental Activities	\$	(179,385)
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CITY OF TROY, ALABAMA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2004

	<u>ASSETS</u>	<u>2004</u>
Current Assets:		
Cash - gross revenue and maintenance accounts	\$	2,710,293
Accounts receivable - customers		3,126,633
Accounts receivable - grants		-
Inventories		<u>632,459</u>
Total Current Assets		6,469,385
 Restricted Assets - Cash and Investments:		
Bond and interest redemptions		417,559
Debt service reserve		1,812,838
Bond proceeds designated for capital projects		<u>5,815,363</u>
Total Restricted Assets - Cash and Investments		8,045,760
 Property, Plant and Equipment:		
Land		104,434
Office equipment		369,422
Automotive equipment		1,564,255
Buildings		2,465,863
Construction in progress		1,547,009
Utility systems and equipment		<u>40,777,477</u>
		46,828,460
Accumulated Depreciation		<u>(23,672,482)</u>
Net Property, Plant and Equipment		23,155,978
 Other Assets:		
Unamortized bond issuance cost		<u>419,069</u>
 Total Assets	\$	<u><u>38,090,192</u></u>

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

LIABILITIES AND NET ASSETS

2004

Liabilities:**Current Liabilities (Payable from Current Assets):**

Accounts payable	\$ 1,175,165
Alabama utilities tax payable	49,922
Payroll taxes and group insurance payable	15,022
Accrued salaries	145,737
Capital lease payable	12,219
Accrued compensated absences	257,142

Total Current Liabilities (Payable from Current Assets) 1,655,207

Current Liabilities (Payable from Restricted Assets):

Water, electric and sewer revenue bonds payable in one year	1,090,000
Accrued interest payable on bonds	274,647

Total Current Liabilities (Payable from Restricted Assets) 1,364,647

Long-term Liabilities:

Customers' deposits	430,025
Capital lease - noncurrent	21,339
Water, Electric and Sewer Revenue Bonds not due in one year	17,465,000
Unamortized bond premium	53,182
Unamortized bond discount	(285,832)
Deferred loss on early retirement of debt	(391,111)

Total Long-term Liabilities 17,292,603

Total Liabilities 20,312,457

Net Assets:

Invested in capital assets, net of related debt	4,600,978
Restricted for:	
Capital projects	5,815,363
Debt service	2,230,397
Unrestricted net assets	5,130,997

Total Net Assets 17,777,735

Total Liabilities and Net Assets \$ 38,090,192

CITY OF TROY, ALABAMA**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS****PROPRIETARY FUNDS**

FOR THE YEARS ENDED SEPTEMBER 30, 2004

	2004
Operating Revenues:	
Electric tolls	\$ 18,698,722
Less Electric power purchases	(12,135,342)
ECA revenue	999,963
Water tolls	1,339,298
Sewer charges	1,043,696
Fees and taps	387,697
Other income	110,793
Total Operating Revenues:	<u>10,444,827</u>
Operating Expenses:	
Salaries and wages	2,165,092
Materials and supplies	709,461
Heat, light and power	47,465
Insurance	312,856
Engineering services	53,104
Auto and truck repairs	56,764
Office supplies and expense	85,110
Fuel and lubrication	45,666
Payroll taxes and insurance	346,089
Retirement expense	190,258
Depreciation	1,154,135
Bad debts	89,913
Special appropriation	500,000
Other expenses	607,966
Total Operating Expenses	<u>6,363,879</u>
Operating Income	4,080,948
Nonoperating Revenues (Expenses):	
Interest	258,900
Interest on bonds	(1,066,192)
Amortization of bond issuance cost	(50,086)
Total Nonoperating Revenues (Expenses)	<u>(857,378)</u>
Net Income Before Contributions and Transfers	3,223,570
Capital contributions and grant revenues	-
Transfers to general government	<u>(3,435,833)</u>
Changes in Net Assets	(212,263)
Net Assets - Beginning of Year	<u>17,989,998</u>
Net Assets - End of Year	<u><u>\$ 17,777,735</u></u>

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

CITY OF TROY, ALABAMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	2004
Cash Flows from Operating Activities:	
Receipts from customers	\$ 22,425,992
Payments to suppliers	(14,051,563)
Payments to employees for wages and benefits	(2,692,456)
Other receipts (payments)	(389,207)
Net Cash Provided (Used) by Operating Activities	<u>5,292,766</u>
Cash Flows from Noncapital Financing Activities:	
Amounts transferred to general government	(3,435,833)
Cash Flows from Capital and Related Financing Activities:	
Proceeds from capital debt	7,790,505
Proceeds from grants	-
Purchases of capital assets	(1,036,258)
Principal payments on capital leases	(23,246)
Principal payments on capital debt	(8,350,000)
Interest paid on capital debt	(954,284)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,573,283)</u>
Cash Flows from Investing Activities:	
Interest	<u>258,900</u>
Net Increase (Decrease) in Cash and Equivalents	(457,450)
Cash and Equivalents - Beginning of Year	<u>11,213,503</u>
Cash and Equivalents - End of Year	<u><u>\$ 10,756,053</u></u>

SUPPLEMENTARY INFORMATION

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	\$ 4,080,948
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	1,154,135
(Increase) decrease in:	
Accounts receivable	28,306
Inventories	(122,664)
Increase (decrease) in:	
Accounts payable and expenses	124,835
Compensated absences	8,983
Customer deposits	18,223
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 5,292,766</u></u>

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

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CITY OF TROY, ALABAMA

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

The accompanying financial statements of the City of Troy (the "City") have been prepared in conformity with United States of America generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The following summary of the City's more significant accounting policies is presented to assist the reader in interpreting the basic financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying basic financial statements.

NOTE 1 - Summary of Significant Accounting Policies

In 2003, the City implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus*, which provides additional guidance for the implementation of GASB Statement 34, and GASB Statement No. 38, *Certain Financial Statement Disclosures*, which changes note disclosure requirements for governmental entities.

GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, entity-wide financial statements, required supplementary information, and the elimination of the effects of the use of account groups to the already required fund financial statements and notes.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that entity-wide financial statements are needed to allow user's of financial reports to assess a government's operational accountability. The new GASB model integrates fund-based financial reporting and entity-wide financial reporting as complementary components of a single comprehensive financial reporting model.

(A) Financial Reporting Entity:

The City of Troy, Alabama, was incorporated in 1843. The City operates under the Mayor - Council form of government. As required by United States of America generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Troy and its component units. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Component units - In conformity with United States of America generally accepted accounting principles, the financial statement of a component unit has been included in the financial reporting entity as a blended component unit.

Blended Component Unit - The City of Troy Public Library is governed by a separate board appointed by the City Council. For financial reporting purposes, the Library is reported as one of the City's Special Revenue Funds due to its financial reliance on support from the City.

CITY OF TROY, ALABAMA

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

(B) Basis of Presentation:

Government-Wide Financial Statements

The Government-wide financial statements (statement of net assets and the statement of activities) display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services, which report fees, fines, and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions, which finance annual operating activities including restricted investment income; and (3) capital grants and contributions, which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to the program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category – *governmental* and *proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. The nonmajor governmental funds consist of the State Gas Tax, Library, and Recreation special revenue funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund - This fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Permanent Fund - This fund is used to account for the "City of Troy Investment Trust Fund" which has been reserved for future growth of the City. This trust was created on October 1, 1995 by Ordinance No. 123 passed by the City Council and Act 96-459 as passed by the Alabama State Legislature.

Water, Electric and Sewer Systems - This fund accounts for the provision of water, electric and sewer services to the residents of the City. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

CITY OF TROY, ALABAMA

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

(C) Basis of Accounting:

In accordance with Alabama General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting.

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

As permitted by United States of America generally accepted accounting principles, the City has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating.

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

(D) Assets, Liabilities, Net Assets or Equity, and Other Financial Statement Items:

Cash and Investments

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

The enterprise fund for purposes of the statement of cash flows, considers both restricted and unrestricted cash on deposit in demand deposit accounts and certificates of deposit to be cash equivalents. As of September 30, 2004, the carrying amount of the City's deposits with financial institutions in all funds was \$16,119,730. The carrying amount is categorized as follows:

Amount insured by FDIC	\$ 691,041
Amount collateralized with securities held by an outside agent in the City's name	11,688,940
Amount insured by the Security for Alabama Funds Enhancement (SAFE) program	3,739,749
Total	<u>\$ 16,119,730</u>

Investments of Alabama Municipalities are controlled by Alabama Law sections 11-81-19 and 11-81-21 and these statutes authorize the City to invest in certain obligations. Allowable "direct" investments of excess funds that would be in compliance with current state law would be:

A. Direct obligations of the Department of the Treasury of the United States such as Treasury Bonds, Notes, and Bills.

B. Obligations of the Farmers Home Administration, General Services Administration, U.S. Maritime Administration, Small Business Administration, Government National Mortgage Association, U.S. Department of Housing and Urban Development, or Federal Housing Administration. (Does not include Federal National Mortgage Association)

C. U.S. Dollar denominated deposit accounts and certificates of deposit with banks or savings associations which are qualified under Chapter 14A of Title 41. (These are banks participating in the "SAFE Program" that secures deposits in excess of \$100,000.)

D. Pre-refunded public obligations which are not callable, which are fully secured as to principal, interest, and redemption premium by direct obligations of the Department of the Treasury, the pre-refunding fund must be verified as sufficient by an independent certified public accountant and also be rated, based on the escrow, in the highest rating category of Standard & Poor's Corporation and Moody's. (These would be State & Local bonds that have been defeased from the issuer's prospective but are still outstanding and all necessary debt service has been provided for in an escrow fund held by a trustee.)

E. Interests in a common or collective trust fund maintained by any national or state chartered bank, trust company, or savings association having trust powers, or in any open-end or closed-end management type investment company or trust registered under the Investment Company Act of 1940 so as long as 65% of these common or collective funds are invested in items approved in items A-D above and not more than 35% is invested solely in obligations issued or guaranteed by Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, including participation certificates of these agencies, and also mortgage related securities of FNMA, FHLMC, Federal Land Banks, Student Loan Marketing Association, and Federal Home Loan banks, or repurchase agreements fully collateralized by obligations, securities, or investments otherwise authorized by E as long as the common or collective trust takes possession of the collateral supporting the repurchase agreement.

CITY OF TROY, ALABAMA

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

(D) Assets, Liabilities, Net Assets or Equity, and Other Financial Statement Items, Continued:

Investments consist primarily of U.S. Treasury Bonds and U.S. Government Agency Notes and are stated at cost or amortized cost, which approximated market. All investments are considered to be "Held to Maturity." At September 30, 2004, investments consisted of the following investments, all of which were in the Investment Trust Fund, accounted for as a governmental fund type and reported as a permanent fund on the financial statements:

	Unamortized Cost	Fair Market Value	Unrealized Gain (Loss)
Money Market Accounts	\$ 959,999	\$ 959,354	\$ (645)
U.S. Treasury Bonds and Notes	7,733,318	8,073,782	340,464
Alabama Municipal Bonds	1,105,723	1,125,677	19,954
U.S. Government Agency Notes	5,397,613	5,379,710	(17,903)
Totals	<u>\$15,196,653</u>	<u>\$15,538,523</u>	<u>\$ 341,870</u>

Investments are insured or registered, or securities held by the City or its agent in the City's name.

Interfund Transactions

Interfund transactions are reflected as transfers.

Receivables

All trade and property tax receivables are shown net of an allowance for uncollectibles of zero. The City considers accounts receivable to be fully collectible.

Inventory

Inventory of the Water, Electric and Sewer Systems is valued at the lower of cost or market on the first-in, first-out method. Inventory consisted of materials and supplies necessary for maintenance of the Water and Electric Systems as follows:

	2004
Water and Sewer System	\$ 11,587
Electric System	620,872
Total	<u>\$ 632,459</u>

Capital Assets

Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Proprietary capital assets are also reported in their respective fund financial statements. The City maintains infrastructure asset records with all other capital assets. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF TROY, ALABAMA

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

(D) Assets, Liabilities, Net Assets or Equity, and Other Financial Statement Items, Continued:

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Passenger Vehicles	7
Large Vehicles	15
Furniture and Fixtures	10
Buildings and Improvements	30
Streets and Sidewalks	12
Computers	5
Small Equipment	7
Large Equipment	15
Book Inventory	10
Water, Sewer and Electric System	20 - 40

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for all vacation and a portion of sick leave amounts are reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF TROY, ALABAMA

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

(D) Assets, Liabilities, Net Assets or Equity, and Other Financial Statement Items, Continued:

Non-Current Governmental Assets/Liabilities

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide statement of net assets.

Net Assets/Fund Equity

The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are classified as invested in capital assets, net of related debt; restricted; and unrestricted.

Invested in Capital Assets, Net of Related Debt - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Assets - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - This category represents net assets of the City not restricted for any project or other purpose.

Debt Service

The restricted for debt service portion of net assets represents funds being held by the bond trustee reserved for the payment of revenue bond obligations of the City. At September 30, 2004, the City has a debt service reserve of \$1,812,838.

Designated for Capital Improvements

Certain appropriations for capital improvements which have not been started or completed have been carried forward as designations of fund balance for completion in subsequent budget years.

Cash Flow Statements

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, deposits, short-term investments and cash and investments with fiscal agents. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition.

Capitalization of Interest Revenue and Expense - Proprietary Funds

It is the policy of the City to capitalize, during the period of significant construction only, interest on projects of the Water, Electric and Sewer Systems proprietary fund. During the fiscal year ended September 30, 2004, there were no interest costs required to be capitalized.

Accumulated Unpaid Employee Benefits

At September 30, 2004, the General Fund liability amounted to \$616,633 and the Enterprise Fund liability amounted to \$257,142. Compensated absences are reported as accrued in the government-wide and proprietary financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees are included in wages and benefits payable.

CITY OF TROY, ALABAMA

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

(D) Assets, Liabilities, Net Assets or Equity, and Other Financial Statement Items, Continued:

Restricted Assets

The governmental and enterprise funds, because of certain bond covenants, are required to establish and maintain prescribed amounts of resources (consisting of cash and cash equivalents) that can be used only to service outstanding debt. The City also considers cash proceeds from bonds issued designated for construction projects to be restricted assets.

(E) Use of Estimates:

The preparation of financial statements in conformity with United States of America generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(F) Risk Management:

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has obtained commercial insurance coverage to effectively manage risk.

NOTE 2 - Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

The procedures established by the City Council in adopting the budgetary data reflected in the financial statements are as follows:

1. Prior to September 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of a resolution.

The Mayor is authorized to transfer budgeted amounts between departments within any fund and approve reductions of budgeted amounts. All other unencumbered appropriations lapse at year-end. Encumbered amounts are re-appropriated in the ensuing fiscal year budget.

Budgets are adopted for all governmental fund types and are prepared on a basis consistent with United States of America generally accepted accounting principles. Budget amounts are as originally adopted.

Excess of Expenditures Over Appropriations

For the year ended September 30, 2004, expenditures over appropriations for governmental funds were \$8,913,653. The excess expenditures were mainly due to capital outlay expenditures and debt service payments that were financed with proceeds from debt issues in the prior fiscal year. Additional expenditures over appropriations were funded by transfers from the City's business-type activity.

CITY OF TROY, ALABAMA**NOTES TO BASIC FINANCIAL STATEMENTS****SEPTEMBER 30, 2004****NOTE 2 - Stewardship, Compliance, and Accountability, Continued****Reclassifications and Eliminations**

Interfund balances must generally be eliminated in the government-wide financial statements, except for net residual amounts due between governmental activities. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once - in the function in which they are allocated.

NOTE 3 - Capital Assets

Capital asset activity for the year ended September 30, 2004 was as follows:

Primary Government Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets Not Being Depreciated:				
Construction in progress	\$ -	\$ 1,143,156	\$ -	\$ 1,143,156
Land	2,458,783	-	(42,212)	2,416,571
Total Capital Assets Not Being Depreciated	\$ 2,458,783	\$ 1,143,156	\$ (42,212)	\$ 3,559,727
Capital Assets Being Depreciated:				
Autos and trucks	\$ 3,263,322	\$ 215,174	\$ (188,614)	\$ 3,289,882
Furniture and fixtures	223,291	1,840	-	225,131
Buildings and improvements	19,542,278	824,622	(2,526)	20,364,374
Equipment	3,094,008	250,201	(14,653)	3,329,556
Books	1,488,503	83,455	-	1,571,958
Street improvements	11,392,058	2,119,481	-	13,511,539
Total Capital Assets Being Depreciated	\$ 39,003,460	\$ 3,494,773	\$ (205,793)	\$ 42,292,440
Less Accumulated Depreciation for:				
Autos and trucks	\$ 2,220,490	\$ 177,829	\$ (174,749)	\$ 2,223,570
Furniture and fixtures	180,747	6,623	-	187,370
Buildings and improvements	6,976,850	802,558	(456)	7,778,952
Equipment	2,444,807	120,530	(14,653)	2,550,684
Books	943,501	77,553	-	1,021,054
Street improvements	8,905,753	525,093	-	9,430,846
Total Accumulated Depreciation	21,672,148	1,710,186	(189,858)	23,192,476
Total Capital Assets Being Depreciated, net	17,331,312	1,784,587	(15,935)	19,099,964
Governmental Activities Capital Assets, net	\$ 19,790,095	\$ 2,927,743	\$ (58,147)	\$ 22,659,691

CITY OF TROY, ALABAMA**NOTES TO BASIC FINANCIAL STATEMENTS****SEPTEMBER 30, 2004****NOTE 3 - Capital Assets, Continued**

	Beginning Balance	Additions	Reductions	Ending Balance
Business-type Activities:				
Capital Assets Not Being Depreciated:				
Construction in progress	\$ 2,854,940	\$ 323,524	\$ (1,631,455)	\$ 1,547,009
Land	104,434	-	-	104,434
Total Capital Assets Not Being Depreciated	<u>\$ 2,959,374</u>	<u>\$ 323,524</u>	<u>\$ (1,631,455)</u>	<u>\$ 1,651,443</u>
Capital Assets Being Depreciated:				
Office equipment	\$ 333,440	\$ 38,284	\$ (2,301)	\$ 369,423
Automotive equipment	1,416,228	230,245	(82,220)	1,564,253
Buildings	2,464,311	1,552	-	2,465,863
Communication equipment	201,875	-	-	201,875
Electric distribution system	11,901,058	372,932	(26,577)	12,247,413
Water distribution system	9,287,687	8,511	(171)	9,296,027
Sewer distribution system	17,339,497	1,692,665	-	19,032,162
Total Capital Assets Being Depreciated	<u>\$46,007,904</u>	<u>\$ 2,667,713</u>	<u>\$ (1,742,724)</u>	<u>\$ 45,177,016</u>
Less Accumulated Depreciation for:				
Office equipment	\$ 257,026	\$ 27,316	\$ (2,301)	\$ 282,041
Automotive equipment	1,143,994	70,105	(82,220)	1,131,879
Buildings	485,945	63,687	-	549,632
Communication equipment	78,037	31,618	-	109,655
Electric distribution system	6,867,290	255,843	(26,577)	7,096,556
Water distribution system	4,797,228	222,536	(171)	5,019,593
Sewer distribution system	9,006,361	476,764	-	9,483,125
Total Accumulated Depreciation	<u>22,635,881</u>	<u>1,147,869</u>	<u>(111,269)</u>	<u>23,672,481</u>
Total Capital Assets Being Depreciated, net	<u>23,372,023</u>	<u>1,519,844</u>	<u>(1,631,455)</u>	<u>21,504,535</u>
Business-type Activities Capital Assets, net	<u>\$26,331,397</u>	<u>\$ 1,843,368</u>	<u>\$ (3,262,910)</u>	<u>\$ 23,155,978</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government	\$ 422,959
Public safety	150,865
Highways and public improvements	719,899
Health, welfare and recycling	29,630
Parks and recreation	386,833
Total Depreciation Expense - Governmental Activities	<u>\$ 1,710,186</u>

Business-type Activities:

Utility systems and equipment	\$ 1,154,135
Total Depreciation Expense - Business-type Activities	<u>\$ 1,154,135</u>

Total Depreciation Expense	<u>\$ 2,864,321</u>
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CITY OF TROY, ALABAMA

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

NOTE 4 - Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 4,038,274	\$ 2,524,991
Permanent Fund	-	602,441
Recreation	2,161,086	-
Library	363,905	-
<u>Proprietary Funds:</u>		
Water, Electric and Sewer	-	3,435,833
Total Transfers	<u>\$ 6,563,265</u>	<u>\$ 6,563,265</u>

NOTE 5 - Long-Term Debt

Long-term liability activity for the year ended September 30, 2004 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
General obligation bonds	\$14,560,000	\$ -	\$ 460,000	\$14,100,000	\$ 525,000
General obligation notes payable	2,189,616	164,000	2,121,093	232,523	186,151
	16,749,616	164,000	2,581,093	14,332,523	711,151
Less: Deferred loss on refunding	106,202	-	21,416	84,786	-
Bond discount	424,367	-	48,944	375,423	-
Total Bonds and Notes Payable	16,219,047	164,000	2,510,733	13,872,314	711,151
Other Liabilities:					
Compensated absences	561,225	55,408	-	616,633	-
Long-term Liabilities	<u>\$16,778,942</u>	<u>\$ 219,408</u>	<u>\$ 2,510,733</u>	<u>\$14,488,947</u>	<u>\$ 711,151</u>
Business-type Activities:					
Bonds and Notes Payable:					
Water, electric and sewer bonds	\$19,020,000	\$ 7,885,000	\$ 8,350,000	\$18,555,000	\$ 1,090,000
Capital leases	56,804	-	23,246	33,558	12,219
	19,076,804	7,885,000	8,373,246	18,588,558	1,102,219
Plus: Bond premium	-	59,056	5,874	53,182	-
Less: Deferred loss on refunding	179,461	297,254	85,604	391,111	-
Bond discount	428,732	-	142,900	285,832	-
Total Bonds and Notes Payable	18,468,611	7,646,802	8,144,742	17,964,797	1,102,219
Other Liabilities:					
Compensated absences	248,159	8,983	-	257,142	-
Long-term Liabilities	<u>\$18,716,770</u>	<u>\$ 7,655,785</u>	<u>\$ 8,144,742</u>	<u>\$18,221,939</u>	<u>\$ 1,102,219</u>

CITY OF TROY, ALABAMA**NOTES TO BASIC FINANCIAL STATEMENTS****SEPTEMBER 30, 2004****NOTE 5 - Long-Term Debt, Continued**

Bonds payable at September 30, 2004 are comprised of the following individual issues:

Primary Government*Governmental Activities:*

\$3,690,000 General Obligation Warrants, Series 1998, due in installments varying from \$115,000 to \$210,000 from March 1, 1999 through March 1, 2018; interest 3.85% to 5.00% \$ 2,920,000

\$1,600,000 General Obligation Warrants, Series 2001, due in installments varying from \$50,000 to \$345,000 from December 1, 2001 through December 1, 2021; interest 3.25% to 5.10% 1,495,000

\$10,000,000 General Obligation Warrants, Series 2003, due in installments varying from \$315,000 to \$945,000 from August 1, 2003 through August 1, 2023; interest at 1.00% to 4.75% 9,685,000

Business-type Activities*Revenue Bonds:*

\$8,385,000 Water, Electric, and Sewer Revenue Bonds, Series 2002, due in varying installments through October 1, 2022 ; interest at 3.4% to 4.5% 8,385,000

\$2,590,000 Water, Electric, and Sewer Revenue Bonds, Series 2003, due in varying installments through August 1, 2011; interest at 1.0% to 3.5% 2,285,000

\$7,885,000 Water, Electric, and Sewer Revenue Bonds, Series 2004, due in varying installments through June 1, 2014; interest at 2.0% to 4.5% 7,885,000

32,655,000

Plus Unamortized bond premium at September 30, 2004 53,182

Less Unamortized bond discount and deferred loss at September 30, 2004 (1,137,152)

Net General Obligation and Revenue Bonds \$ 31,571,030

The annual requirements to amortize all long-term debt outstanding as of September 30, 2004, including interest payments of \$13,742,122 are as follows:

For the Year Ending September 30,	General Obligations			Revenue Obligations		
	Principal	Interest	Total Payments	Principal	Interest	Total Payments
2005	\$ 525,000	\$ 588,710	\$ 1,113,710	\$ 1,090,000	\$ 682,913	\$ 1,772,913
2006	540,000	575,419	1,115,419	1,110,000	662,973	1,772,973
2007	555,000	559,791	1,114,791	1,145,000	632,773	1,777,773
2008	570,000	542,248	1,112,248	1,180,000	596,478	1,776,478
2009	590,000	522,795	1,112,795	1,215,000	558,103	1,773,103
2010-2014	2,880,000	2,275,883	5,155,883	6,170,000	2,068,308	8,238,308
2015-2019	4,565,000	1,630,229	6,195,229	3,380,000	1,077,358	4,457,358
2020-2023	3,875,000	469,305	4,344,305	3,265,000	298,836	3,563,836
	<u>\$ 14,100,000</u>	<u>\$ 7,164,380</u>	<u>\$ 21,264,380</u>	<u>\$ 18,555,000</u>	<u>\$ 6,577,742</u>	<u>\$ 25,132,742</u>

CITY OF TROY, ALABAMA

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

NOTE 5 - Long-Term Debt, Continued

Notes payable and capital lease obligations at September 30, 2004 are comprised of the following individual issues:

Primary Government

Governmental Activities:

Troy Bank & Trust, 120 monthly payments of \$2,215, including interest at a rate of 5.25%, collateralized by an airport hangar \$ 7,390

Troy City Board of Education, monthly payments ranging from \$1,609.27 to \$1,627.50, including interest at variable rates between 7% and 8%, unsecured 61,133

Troy Bank & Trust, principal and interest at 3.75% due 04/18/05 164,000
Total General Fund \$ 232,523

Maturing September 30,	Principal	Interest	Total Payments
2005	\$ 186,151	\$ 4,769	\$ 190,920
2006	15,774	3,574	19,348
2007	17,024	2,365	19,389
2008	13,574	1,052	14,626
	<u>\$ 232,523</u>	<u>\$ 11,760</u>	<u>\$ 244,283</u>

The City has leased certain office and maintenance equipment under capital lease agreements. The resulting obligations have been recorded in the accompanying financial statements at the present value of future minimum lease payments, discounted at interest rates of 8.15% and 5.66%. The capitalized cost of \$139,237, less accumulated depreciation of \$128,802, is included in property and equipment in the accompanying financial statements of the enterprise fund. Depreciation expense for this equipment for the year ended September 30, 2004 was \$19,390.

The future minimum lease payments under the capital lease and the net present value of the future minimum lease payments are as follows for the period ended September 30, 2004:

2005	\$ 14,307
2006	11,949
2007	9,958
	<u>36,214</u>
Less: Amount Representing Interest	2,656
Present Value of Future Minimum Lease Payments	<u>\$ 33,558</u>

CITY OF TROY, ALABAMA

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

NOTE 5 - Long-Term Debt, Continued

Other:

Revenue Obligations - There is \$417,559 on deposit in bond and interest redemption accounts and \$1,812,838 on deposit in debt service reserve accounts to service the revenue bonds of the Water, Electric and Sewer System. All requirements of the revenue bond indentures have been complied with.

General Obligations - The Series 2001 General Obligation School Warrants were issued by the City of Troy on behalf of and for the City of Troy School System (which is not a component unit of the City's reporting entity). Certain taxes allocated to the Board of Education have been pledged by the board for the repayment of this indebtedness, as provided for in a funding agreement between the City Board of Education of the City of Troy and the City of Troy. Requirements of all General Obligation warrants have been complied with.

NOTE 6 - Debt Defeasance

On June 1, 2004, the City of Troy issued the Series 2004 revenue bonds of \$7,885,000, with interest rates varying from 2% to 4.5%, to advance refund the 1995A and 1998 serial bonds, with interest rates varying from 4% to 5.38%, with an outstanding par value of \$7,400,000. The 2004 revenue bonds were issued at a premium of \$59,056 and after paying issuance costs of \$111,358, the net proceeds were \$7,832,698. Of the net proceeds, \$7,832,698 were used to purchase U.S. Government securities and those securities were deposited into an irrevocable trust with an escrow agent to provide debt service payments of the outstanding serial bonds through June 4, 2004, at which time the bonds will be repurchased under the call provisions of the 1995A and 1998 issues. The advance refunding met the requirements of an in-substance debt defeasance and the 1995A and 1998 bonds were removed from the City's proprietary fund balance sheet.

As a result of the advance refunding, the City reduced its total debt service requirements by \$970,249, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$587,966.

Prior Year Debt Defeasance

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the City's General Long-Term Debt Account Group. As of September 30, 2004, all bonds related to the defeased debt have been called and paid in full.

CITY OF TROY, ALABAMA

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

NOTE 7 - Pension and Retirement Plan

Employees of the City participate in the Employees' Retirement System operated by the State of Alabama ("the Employees' System"). The City has been a participant in the Employees' System since 1969. Since that date, contributions have been made by employees and by the City to the Employees' System. Contributions by the City are made on the basis of actuarial determinations, which determinations attempt to provide contributions by the City and by employees that will be sufficient, at the time of retirement, to provide the benefits contemplated by the retirement program. The City is informed that total employer contributions will, with employee contributions at the statutory rate, cover the normal contribution and liquidate the total unfunded actuarial accrued liability. Unlike the Teachers' Retirement System, the Employees' System does not undertake to fund the retirement plans of participating local governments and acts only in an administrative capacity, and then only upon election of local governments.

The state statute permitting such election provides that "the retirement system shall not be liable for the payment of any pensions or other benefits on account of the employees or pensions of any employees under this section, for which reserves have not been previously created from funds contributed by such employer or its employees for such benefits." The statute further provides that the agreement of the City to contribute to the employees' system on account of its employees is irrevocable, but should it become financially unable to make the normal and accrued liability contribution, the City would be deemed to be in default under the Employees' System. Total pension costs for the year ended September 30, 2004 were \$735,410.

NOTE 8 - Customers' Deposits - Proprietary Fund

No restricted bank account is maintained to hold customers' deposits. The deposits at September 30, 2004, which total \$430,025, are included in the operating cash and constitute a portion of the current assets shown in these statements.

NOTE 9 - Accumulated Patronage Capital Credits

The City has accumulated patronage capital credits on the books of the Alabama Electric Cooperative, Andalusia, Alabama, totaling \$238,449 at September 30, 2004. This amount is not included in these statements because the eventual redemption of these capital credits is unknown. The City accumulated these patronage capital credits by purchasing electricity from the South Alabama Electric Cooperative. The City began purchasing power from the South Alabama Electric Cooperative in 1965.

NOTE 10 - Litigation

There are no claims that have been determined to have a possible unfavorable outcome that would require payment by, or result in a loss to, the City of Troy. Therefore, no disclosure of ongoing litigation is required.

CITY OF TROY, ALABAMA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 11 - Commitments

As of October 1, 2004, the City is obligated under an agreement with Troy State University to provide a debt service payment of \$ 302,798 on their behalf, on June 1, 2005.

The City has a commitment to complete 2002 Water, Electric and Sewer capital projects totaling \$5,778,299 with the 2002 bond proceeds and 2003 General Government capital projects totaling \$3,684,179 with the 2003 bond proceeds as specified in the bond official statement.

The City has committed to purchase a fire truck costing \$449,990. Payment is due upon completion and delivery of the fire truck during the next fiscal year.

NOTE 12 - Property Taxes

Pike County is responsible for assessing, collecting, and distributing property taxes in accordance with enabling state legislation on the behalf of the cities in its jurisdiction. The following dates are applicable to property taxes:

Lien date	Oct. 1
Levy date	Oct. 1
Due date	Dec. 31
Collection date	Oct. 1 - Dec. 31

All property taxes are recognized in compliance with National Council on Governmental Accounting Interpretation No. 3; which states that such revenue should be recorded when it becomes measurable and available. Available means due, past due, and receivable within the current period and collected no longer than 60 days after the close of the current period.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TROY, ALABAMA

BUDGET TO ACTUAL COMPARISON STATEMENT

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	2004			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues:				
Taxes	\$ 5,783,000	\$ 5,783,000	\$ 5,994,388	\$ 211,388
Charges for services-garbage fees	615,000	615,000	588,332	(26,668)
Licenses and permits	609,000	609,000	529,508	(79,492)
Fines and costs	170,000	170,000	249,071	79,071
Operating and capital grants	-	-	1,520,806	1,520,806
Other	849,000	849,000	1,123,483	274,483
Total Revenues	<u>8,026,000</u>	<u>8,026,000</u>	<u>10,005,588</u>	<u>1,979,588</u>
Expenditures:				
Special expenditures	491,469	491,469	472,266	19,203
Culture and recreation	39,000	39,000	228,257	(189,257)
Education	-	-	-	-
General government	3,178,868	3,178,868	3,499,560	(320,692)
Public safety	3,935,750	3,935,750	4,060,651	(124,901)
Highways and streets	1,656,500	1,656,500	1,853,083	(196,583)
Health and welfare	507,400	507,400	479,304	28,096
Debt service	1,075,000	1,075,000	3,171,291	(2,096,291)
Senior Center	97,000	97,000	201,238	(104,238)
Capital Outlay	350,000	350,000	3,022,171	(2,672,171)
Total Expenditures	<u>11,330,987</u>	<u>11,330,987</u>	<u>16,987,821</u>	<u>(5,656,834)</u>
Excess (Deficiency) of Revenues Over Expenditures	(3,304,987)	(3,304,987)	(6,982,233)	(3,677,246)
Other Financing Sources (Uses):				
Proceeds from debt	-	-	164,000	164,000
Bond issue costs and discount	-	-	-	-
Payments to bond escrow	-	-	-	-
Operating transfers in	4,448,987	4,448,987	4,038,274	(410,713)
Operating transfers out	(1,144,000)	(1,144,000)	(2,524,991)	(1,380,991)
Total Other Financing Sources (Uses)	<u>3,304,987</u>	<u>3,304,987</u>	<u>1,677,283</u>	<u>(1,627,704)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	-	-	(5,304,950)	(5,304,950)
Fund Balance - Beginning of Year	<u>8,619,830</u>	<u>8,619,830</u>	<u>8,619,830</u>	-
Fund Balance - End of Year	<u>\$ 8,619,830</u>	<u>\$ 8,619,830</u>	<u>\$ 3,314,880</u>	<u>\$ (5,304,950)</u>

SEE AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

OTHER SUPPLEMENTARY INFORMATION

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members
of the City Council
City of Troy, Alabama

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Troy, Alabama, as of, and for the year ended September 30, 2004, which collectively comprise the City of Troy, Alabama's basic financial statements and have issued our report thereon dated March 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Troy, Alabama's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Troy, Alabama's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of management, others within the organization, the City Council of Troy, Alabama, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



March 28, 2005

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Members
of the City Council
City of Troy, Alabama

Compliance

We have audited the compliance of the City of Troy, Alabama with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2004. The City of Troy, Alabama's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Troy, Alabama's management. Our responsibility is to express an opinion on the City of Troy, Alabama's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Troy, Alabama's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Troy, Alabama's compliance with those requirements.

In our opinion, the City of Troy, Alabama complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Controls over Compliance

The management of the City of Troy, Alabama is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Troy, Alabama's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, and others within the organization, City Council, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



March 28, 2005

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CITY OF TROY, ALABAMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Federal Grantor/Pass-Through Agency Program Title	Federal CFDA Number	Grantor's Number	Program Amount	Accrued or (Deferred) Revenue at October 1, 2003	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at September 30, 2004
U.S. Department of Transportation / ADECA Recreational Trails Program (See Note 2 Below)	20.219	01 RT 54 022	\$ 50,000 \$	- \$	50,000 \$	50,000 \$	-
U.S. Department of Justice/ADECA Juvenile Justice and Delinquency Prevention	16.540	02 JF C3 011	\$ 164,194 \$	- \$	164,194 \$	164,194 \$	50,351
U.S. Department of Agriculture/SCADC and AL Dept of Educ Title III Summer Food Service Title III Summer Food Service Total U.S. Department of Agriculture	10.559 10.559	Seniors Center AFL-0000	\$ 51,611 \$ 77,492 \$ 129,103 \$	- \$ - - \$	51,611 \$ 77,492 129,103 \$	51,611 \$ 77,492 129,103 \$	- - -
U.S. Department of Transportation/FAA/AL DOT Airport Improvements Program Airport Improvements Program	20.106 20.106	AIP 3-01-0071-007-2002 AIP 3-01-0071-008-2003	\$ 2,000,000 \$ 337,836 \$ 2,337,836 \$	- \$ - - \$	131,345 \$ 337,836 469,181 \$	131,345 \$ 337,836 469,181 \$	- - -
U.S. Department of Housing and Urban Development/ADECA CDBG - States Program	14.228	LR-CM-PF-02-013	\$ 500,000 \$	- \$	8,937 \$	8,937 \$	-
U.S. Department of Justice LLEBG LLEBG COPS Grant Universal Hiring COPS Grant Universal Hiring Total U.S. Department of Justice	16.592 16.592 16.592 16.592	2003 LB BX 1474 2002 LB BX 2984 2002 UM WX 0004 2003 UM WX 0222	\$ 20,529 \$ 21,729 133,007 70,021 \$ 245,286 \$	- \$ (21,729) - - (21,729) \$	- \$ 21,729 51,870 3,287 76,886 \$	- \$ 21,729 51,870 3,287 76,886 \$	(20,529) - - - (20,529)
U.S. General Services Administration/ADECA Donation of Federal Surplus Personal Property	39.003	n/a	\$ 215 \$	- \$	215 \$	215 \$	-
Grand Total - All Federal Programs			\$ 3,426,634 \$	(21,729) \$	898,516 \$	898,516 \$	29,822

Note 1: This schedule was prepared on the modified accrual basis of accounting.

Note 2: The expenditures were recognized in the financial statements in FY 2003 but not included on the Schedule of Expenditures of Federal Awards

See Auditors' Report

CITY OF TROY, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2004

EXHIBIT 12

Section I - Summary of Auditors' Results

Financial Statements:

We have issued a report with an unqualified opinion on the financial statements.

Internal Control Over Financial Reporting:

• Material weaknesses identified?	yes	<u> </u>	no	<u> X </u>
• Reportable conditions identified that are not considered to be material weaknesses?	yes	<u> </u>	none reported	<u> X </u>
Noncompliance material to financial statements noted?	yes	<u> </u>	no	<u> X </u>

Federal Awards:

Internal control over major programs:

• Material weaknesses identified?	yes	<u> </u>	no	<u> X </u>
• Reportable conditions identified that are not considered to be material weaknesses?	yes	<u> </u>	none reported	<u> X </u>

We have issued a report with an unqualified opinion on compliance for major programs.

Any audit findings disclosed that are required to be reported in accordance with .510(a) of Circular A-133?

yes	<u> </u>	no	<u> X </u>
-----	-------------------	----	----------------------

The City of Troy, Alabama's major programs are as follows:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
20.106	U.S. Department of Transportation/FAA Airport Improvements Program

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?	yes	<u> X </u>	no	<u> </u>
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Section II - Financial Statement Findings

There were no matters reported

Section III - Federal Award Findings and Questioned Costs

There were no matters reported

CITY OF LUVERNE, ALABAMA
AUDITED EXPENDITURES AND REVENUES BUDGET AND ACTUAL
ADECA CONTRACT NUMBER
LR-CM-PF-02-013
AS OF SEPTEMBER 30, 2004

	Total Budget			Current Year Activity			Prior Year Totals			Cumulative Totals		
	Grant	Local	Match	Funds	Grant	Local	Funds	Grant	Local	Actual	Budget	Over (Under)
REVENUES:												
State of Alabama	\$ 500,000	\$ -	\$ -	\$ 8,937	\$ -	\$ -	\$ 24,933	\$ -	\$ -	\$ 33,870	\$ 500,000	\$ (466,130)
Local Contributions	-	50,000	-	-	-	-	-	-	27,869	27,869	50,000	(22,131)
Totals	\$ 500,000	\$ 50,000	\$ -	\$ 8,937	\$ -	\$ -	\$ 24,933	\$ 27,869	\$ 61,739	\$ 550,000	\$ (488,261)	

**EXPENDITURES BY
BUDGET COST CATEGORY**

Engineering	\$ 47,700	\$ 6,000	\$ 7,000	\$ -	\$ 7,500	\$ 6,000	\$ 20,500	\$ 53,700	\$ (33,200)
Sewer	443,100	44,000	1,937	-	17,433	21,869	41,239	487,100	(445,861)
Housing Rehab	9,200	-	-	-	-	-	-	9,200	(9,200)
Totals	\$ 500,000	\$ 50,000	\$ 8,937	\$ -	\$ 24,933	\$ 27,869	\$ 61,739	\$ 550,000	\$ (488,261)

CITY OF TROY, ALABAMA
AUDITED EXPENDITURES AND REVENUES BUDGET AND ACTUAL
ADECA CONTRACT NUMBER
02-JF-C3-011
AS OF SEPTEMBER 30, 2004

	Total Budget			Current Year Activity			Prior Year Totals			Cumulative Totals			Over (Under)
	Grant Funds	Local Match		Grant Funds	Local Match		Grant Funds	Local Match		Actual	Budget		
State of Alabama	\$ 164,194	\$ -	\$ -	\$ 164,194	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 164,194	\$ 164,194	\$ -	-
Local Contributions	-	-	-	-	-	-	-	-	-	-	-	-	-
Totals	\$ 164,194	\$ -	\$ -	\$ 164,194	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 164,194	\$ 164,194	\$ -	-

**EXPENDITURES BY
BUDGET COST CATEGORY**

Administration	\$ 164,194	\$ -	\$ -	\$ 164,194	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 164,194	\$ 164,194	\$ -	-
Totals	\$ 164,194	\$ -	\$ -	\$ 164,194	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 164,194	\$ 164,194	\$ -	-

See Auditors' Report

CITY OF TROY, ALABAMA
AUDITED EXPENDITURES AND REVENUES BUDGET AND ACTUAL
ADECA CONTRACT NUMBER
01-RT-54-022
AS OF SEPTEMBER 30, 2004

	Total Budget			Current Year Activity			Prior Year Totals			Cumulative Totals			Over (Under)
	Grant Funds	Local Match		Grant Funds	Local Match		Grant Funds	Local Match		Actual	Budget		
REVENUES:													
State of Alabama	\$ 50,000	\$ -	\$ -	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,000	\$ 50,000	\$ -	
Local Contributions	-	12,500	-	-	13,491	-	-	-	-	13,491	12,500	991	
Totals	\$ 50,000	\$ 12,500	\$ 13,491	\$ 50,000	\$ 13,491	\$ -	\$ -	\$ -	\$ -	\$ 63,491	\$ 62,500	\$ 991	
EXPENDITURES BY BUDGET COST CATEGORY													
Construction	\$ 50,000	\$ 12,500	\$ 13,491	\$ 50,000	\$ 13,491	\$ -	\$ -	\$ -	\$ -	\$ 63,491	\$ 62,500	\$ 991	
Totals	\$ 50,000	\$ 12,500	\$ 13,491	\$ 50,000	\$ 13,491	\$ -	\$ -	\$ -	\$ -	\$ 63,491	\$ 62,500	\$ 991	

**STATEMENT OF INDEPENDENT AUDITORS'
QUALIFICATIONS PURSUANT TO
YELLOW BOOK STANDARDS**

Gibson & Carden, L.L.C., Certified Public Accountants hereby affirms that it meets the auditing standards generally accepted in the United States of America regarding continuing professional education and peer review as defined by *Government Auditing Standards* (the Yellow Book). We affirm that all staff assigned to the audit of the City of Troy for the year ended September 30, 2004 met the 2-year, 80 hour auditing and accounting continuing professional education requirement.

In addition, our firm has met the requirement to have an on-site peer review once every three years. Our review was conducted on September 18, 2003 and we received an unqualified report.